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Office Memorandum • UNITED STATES GOVERNMENT

TO : [REDACTED] 25X1A9a

DATE: 29 June 1951.

FROM : S/TF. [REDACTED] 25X1A9a

SUBJECT: Economic Factors As A Deterrent To Soviet Intentions.

The argument of economic deterrents to Soviet aggression has lost its validity since the beginning of the Korean War, for the following reasons:

1. Soviet economic resources were already spread thin on reconstruction and military preparedness between 1946 and the middle of 1950.

2. During that period, the actual military might of the free world was deteriorating, although potentials were being increased. Under these circumstances, time seemed to be on the Soviet side.

3. Since the Korean War began, the U.S. and Western European armament programs have been reducing the Soviet actual relative striking power, and time is running against the USSR, as the free world military potential is being converted into actual striking power. Thus, the Soviets are likely to resort to military action before the current balance of military power turns against them.

Although Western intelligence has failed to disclose any significant signs of increased military production in the USSR, the following factors indicate that a major part of the Soviet national effort has been going into military preparedness:

1. Announced annual increases in the various segments of the economy have obviously not resulted in any relative increase in the standard of living or in the availability of manufactured consumers' goods.

2. No announcement of the second post-war Five-Year Plan has been made in 1951, which probably indicates that the materials and efforts which in former years have gone into industrial expansion are now directed toward current production.

3. The announced Soviet military budget for 1951 represents an increase of 21% over planned budgetary allocations for both 1950 and 1949. It may be assumed that Soviet hidden military expenditures -- which are included in investments, medical, educational and scientific expenditures, as well as state reserves -- may have increased in the same proportion as the published military budget.

4. In 1950, under expenditures for "financing the national economy," there was an unexplained residue of 37.8 billion rubles. In 1951, this is planned at about 64 billion rubles. Our Embassy in Moscow has strong reason to suspect that a large part of this residue

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While during 1948-50 there was a marked decrease in the size of unexplained appropriations, the 1951 budget shows an abrupt end of this downward trend, and a decided increase in this category. If, as suspected, the major portion of this amount is allotted to armament industries, the published appropriations for national defense in 1951 could be augmented by as much as 50 per cent.

5. From the total of 94.6 billion rubles appropriated in the 1951 budget for the financing of the national economy, a substantial portion is to be spent on grandiose hydroelectric, irrigation and navigation projects on which the actual work may not begin for some time. Thus, the USSR could disengage itself from the projects without any great loss of investment or lowering of the standard of living, and utilize these funds for military purposes.

6. The Minister of Finance's new demands on the Soviet economy for full use of the existing machinery in industry, agriculture and transport may be considered as an expanded armaments program -- in the absence of a new Five-Year Plan.

7. The 1951 announced military appropriation represents the largest amount set aside for armaments in any year of the post-war period, having been last exceeded in 1945.

8. The absolute increase of the publicized military budget in 1951 over 1950 appropriations is the greatest in any one year since 1945.

9. Since Soviet wholesale and retail prices have been reduced at least twice since the adoption of the 1950 budget, the nominal increase of 21% in the 1951 military budget understates the contemplated rise in real resources to be devoted to direct military purposes in the USSR. Lack of intelligence information on the increase in armament production in the USSR may be considered only as evidence of Soviet efficiency in information control, and not proof of Soviet intentions.